



STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS
California's Investment and Financing Authority

NEWS RELEASE

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Arnold Schwarzenegger, Governor

Wayne Strumpfer, Acting Commissioner

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CALIFORNIA ISSUES "TOP 10 SCAMS" FOR 2006

(Sacramento, CA)—The state Department of Corporations (DOC) today identified the Top 10 Scams for 2006 that Californians should be aware of to protect themselves from fraud. The release of the information coincides with the California Summit on Financial Literacy being held today at the Sacramento Convention Center.

Governor Arnold Schwarzenegger proclaimed this April as California Financial Literacy Month and the list developed by DOC highlights this month's theme of "Prepare Now for a Strong Financial Future." DOC has joined in partnership with the state Department of Financial Institutions during California Financial Literacy Month to alert consumers of the most common and sinister scams that may part them from their money if they are not careful.

"Financial scams are constantly evolving as thieves try to stay one step ahead of law enforcement," said acting Corporations Commissioner Wayne Strumpfer. "Unfortunately, unsuspecting consumers continue to be victims of con artists looking to take their hard-earned money. The best defense against these scams is to be aware and informed."

Californians should always contact DOC before they invest to check the status of the transaction or investment they are considering and the licensing status of the person who is selling it. A toll-free Consumer Resource Center (1-866-ASK-CORP) and language-line service for languages other than English makes the process easy for consumers.

Consumers need to be on the alert for the following scams:

Senior Investment Fraud. The elderly are targeted for fraud for several reasons, such as older Californians are most likely to have a nest egg, own their own home or have excellent credit—all of which the con artist will try to tap into. As seniors plan for retirement, they may fall victim to such investment schemes as oil and gas, real estate, and annuities. They should be careful when solicited by mailers, telephone, and through free lunch or dinner seminars. In the past year, DOC assisted with a Southern California district attorney's office to bring criminal charges against three perpetrators for selling promissory notes offering a 12 percent annual return and then absconding with seniors' money. The defendants were charged with 850 felony counts of senior fraud.

Mortgage Fraud. Predatory mortgage lending involves a wide array of abusive practices and usually takes place in the subprime market, targeting borrowers with weak or blemished credit records. The most common lending abuses include excessive fees, abusive prepayment penalties, loan flipping, and other shady practices. In addition, foreclosure schemes are on the rise in which the

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perpetrators mislead the homeowners into believing that they can save their homes in exchange for a transfer of deed and up-front fees. The perpetrator profits from these schemes by remortgaging the property or pocketing fees paid by the homeowner. DOC, as part of a California task force comprised of local district attorneys and the California Attorney General filed a judgment in 2006 against a major subprime lender to resolve predatory lending allegations against the company, which will provide consumers \$295 million in restitution and require sweeping reforms of the firm's business practices.

Affinity Fraud. These scams exploit the trust and friendship that exist in groups of people who have something in common, such as religious or ethnic communities, the elderly, military servicemembers, or professional groups. The fraudsters who promote affinity scams frequently are—or pretend to be—members of the group and enlist respected community or religious leaders from within the group to unwittingly spread the word about the scheme. In 2005, DOC brought enforcement actions against perpetrators of investment scams affecting members of the African American and the Korean American communities in Southern California, and a foreign currency scheme targeted at the Chinese American community in the Bay Area.

Identity Theft / Phishing. Identity theft is a trend that is often aided by technology and is the criminal activity of stealing someone's personal information for financial gain. More often than not, it involves "phishing," where Internet users believe that they are receiving e-mail from a specific, trusted source, or that they are securely connected to a trusted Web site, when that is not the case. As more investment and banking accounts, as well as 401(k) plans, are accessible online, thieves may attempt to obtain your access codes and passwords so they can transfer all of the assets out of accounts.

Online Escrow Fraud. In 2005, DOC enforcement actions to crack down on online escrow fraud increased by 16 percent from 2004. Escrow services fraud involves a perpetrator proposing the use of a third-party escrow service to facilitate the exchange of money and merchandise. The buyer sends payment to a phony escrow site that closely resembles a legitimate escrow service. Or, the seller sends merchandise to the bogus buyer, and waits for the payment through the escrow site, which is never received because it is a sham.

Commodities / Foreign Currency. Consumers should take special care to protect themselves from the many types of commodities fraud. They might be selling precious metals, such as silver or gold, or foreign currency, such as Euros, Yen or Deutschmarks. Be wary of any firm that offers to sell commodities or commodity futures or options, particularly if a firm promises high profits and low risks, or claims that they have made profits for all of their customers. The commodities and futures markets are very risky, and investors can lose their entire investment very quickly. In 2005, DOC took enforcement action against a firm and sales representatives in San Diego County who were not registered with the Commodity Futures Trading Commission to sell foreign currency contracts. Investors were not aware that the promoter had been barred from the National Futures Association, the self-regulatory organization for the futures industry, and a principal had been ordered by the NASD to pay damages in two separate incidents.

Oil and Gas Scams. With oil prices at record levels and continued Middle East instability, DOC is concerned about the increase in oil and gas scams that it is experiencing. Perpetrators lure investors

into unsuitable or fraudulent oil and gas ventures promising quick profits on a low risk investment. A San Diego scam using five different company names touted a 90 to 95 percent probability of striking oil in oil wells and returning investors' principal investment within a few years, which some customers never received. At least seven California residents invested more than \$770,000 in the scam. The perpetrators failed to disclose prior convictions of mail fraud and wire fraud and that at least seven other states had taken administrative action against the sales agents for securities fraud.

Ponzi / Pyramid Schemes. Named for swindler Charles Ponzi, the premise is simple: use money from later investors to pay early investors. Instead of investing customers' funds, the operator pays dividends to initial investors using the principal amounts invested by subsequent investors. The scheme generally falls apart when the operator flees with all of the proceeds, or when a sufficient number of new investors cannot be found to allow the continued payment of dividends. Another very old form of fraud, a pyramid scheme, promises consumers or investors large profits based primarily on recruiting others to join their program, not based on profits from any real investment or real sale of goods to the public. A product may be used to hide the pyramid structure if the company's incentive program force recruits to buy more products than they could ever sell, or the sales occur only between the people inside the pyramid structure or to new recruits joining the structure, not to consumers out in the general public.

Military Fraud. There has been heightened concern at the federal and state government levels about the financial vulnerabilities of servicemembers and their families, particularly in light of recent deployments to Iraq and Afghanistan. Money woes can be especially difficult for National Guard and Reserve soldiers, who often have to make a rapid switch from civilian to military life when they get called up. DOC created the California Troops Against Predatory Scams (TAPS) program to provide financial education and consumer protection tips, supported by an effective and timely consumer enforcement program.

Disaster and Charity Scams. Scammers will attempt to capitalize on the aftermath of Hurricane Katrina and other disasters. Be careful of investment fraud scams which claim to be trading programs that guarantee high returns, with a portion going to aid relief efforts. Others promote businesses that stand to profit from relief and rebuilding efforts. Be cautious of the influx of Web sites soliciting for charitable donations to avoid phishing and identity theft.

The Department of Corporations is California's investment and financing authority and is responsible for the regulation, enforcement, and licensing of securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending, residential mortgage lending, and payday lenders. Contact our toll-free consumer resource center at 1-866-ASK-CORP (275-2677) for information or to obtain a consumer complaint form. Please visit Corporations' Web site at www.corp.ca.gov.

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